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Improving the financial situation of the United Nations

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Report of the Secretary-General

I. Introduction

1. The present report updates the information on the financial situation of the United Nations contained in the report of the Secretary-General of 13 April 2000 (A/54/454/Add.1). It also provides information on the financial situation of the Organization as at 30 September 2000 and projections for the remaining months of 2000.

II. Review of the financial situation at 30 September and prospects to 31 December 2000

A. Overview

2. At this point in the year, most key indicators show that the financial turnaround that was evidenced in 1999 has not continued in 2000. While an increasing number of Member States are paying in full for the regular budget, the year end cash position is still dependent on one Member State. The budgets of the international tribunals for Rwanda and the former Yugoslavia are increasing annually, as are unpaid assessments for the tribunals. Peacekeeping shows increasing assessments, with larger unpaid assessments limiting the availability of cash, and the level of debt to Member States remains intractable.

3. This is a worrisome turn of events if the Organization is to take on the initiatives recently announced by the Secretary-General for the expansion of peacekeeping field operations, Headquarters backstopping support for better security protection for United Nations staff and the approval of a capital master plan for the Headquarters complex. These major initiatives need a firm financial foundation if they are to succeed.

B. Level of assessments

4. The financial bedrock of the United Nations is the level of assessment agreed to by Member States. The assessment amounts encapsulate what Member States want the Organization to do, but the limits of United Nations financial capacity are circumscribed by the degree to which assessments remain unpaid.

5. At 30 September 2000, the level of assessment, at $3.3 billion, was at its highest level since 1995. It is estimated that assessment levels could reach $3.5 billion in 2001 if the prospective level of activity does in fact occur. As a result, in 2001, the resource requirements of the Organization may begin to rival those of 1994 and 1995. Only the regular budget assessment has remained constant, without any growth over the entire period from 1994 to 2000. There is, however, the possibility of an increase in 2001. Assessments for the international tribunals have

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increased each year and are projected to reach a level close to $200 million for 2001.

6. Peacekeeping shows the largest and most erratic level of resource requirements, with peak years in 1994 and 1995 in the range of $3.2 to $3.4 billion. A rapid downsizing occurred in 1996 with a gradual drop-off to a level of around $900 million in 1998 and 1999. 2000, and prospectively 2001, show a rapid change in direction. Significant new resource requirements are now projected as a result of the new responsibilities of the Organization to maintain peace and to help rebuild governments.

Unpaid assessments: regular budget, peacekeeping and the international tribunals

7. At 30 September 2000, unpaid assessments for regular budget, peacekeeping and the international tribunals together totalled just over $3 billion. Unpaid peacekeeping assessments alone have reached a high level of $2.5 billion. Unpaid tribunal assessments have also continued to rise. Only regular budget payments may show a positive pattern at year-end. In total, unpaid assessments are up 23 per cent from a year ago.

8. Specifically, as at 30 September 2000, unpaid peacekeeping assessments totalled $2.5 billion, $676 million more than in the year before. Unpaid assessments for the international tribunals amounted to $54 million, an increase of $19 million, small in absolute terms but a relatively large change from previous years. Only the amount of unpaid regular budget assessments shows a decrease of $111 million from the end of 1999.

9. The amount of unpaid assessments as at 30 September, $3,094 million, almost equals anticipated total assessments for the year, currently at $3,376 million. The closeness of the two amounts means that the Organization is almost a year behind in collecting assessments. This is a dangerous situation for the Organization, which has very limited reserves and no capital.

10. Of the total amount due by 30 September 2000, the major contributor owed 61 per cent of the amount outstanding. Fourteen other major contributors accounted for 25 per cent and all other Member States owed 14 per cent.

Regular budget

11. Unpaid regular budget assessments as at 30 September 2000 aggregated $533 million, an amount higher than that expected to be owed by 31 December 2000.

12. The United States of America owed 81 per cent of the unpaid aggregate regular budget amounts as at 30 September. Two other Member States included in the next 14 principal contributors, Brazil and Argentina, had outstanding regular budget contributions amounting to 12 per cent. Of the remaining 173 Member States that have been assessed, 53 owed 7 per cent of the uncollected regular budget total.

13. These percentages are not significantly different from those of a year ago. The United States portion is the same, at 81 per cent. The percentage owed by the two other principal contributors has increased from 9 to 12 per cent. Most significantly, among other Member States, the number with outstanding contributions has been reduced from 78 to 53 and their percentage rate from 10 to 7.

14. Payments for current assessments by the United States only begin when that Member State starts its new budget year on 1 October. Accordingly, it is expected that the peak level of unpaid regular budget assessments will decrease in the last three months of the year and that the percentage owed by the United States will go down. In addition, it is anticipated that Argentina and Brazil will also make additional regular budget payments by 31 December 2000. In fact, payments totalling $2.6 million were received from Argentina during the first half of October.

15. Each year, more Member States pay in full than in the year before. In fact, while, at the end of September 2000, the number stood at 131, as at 20 October 2000, that number had increased to 137. This means that only 51 Member States have not yet paid in full. The Secretary-General would like to thank those Member States that are making every effort to complete their payments in the year they are due.

Peacekeeping

16. There are 14 ongoing United Nations missions: four in Africa — the United Nations Organization Mission in the Democratic Republic of the Congo (MONUC), the United Nations Mission in Ethiopia and

Eritrea (UNMEE), the United Nations Mission in Sierra Leone (UNAMSIL) and the United Nations Mission for the Referendum in Western Sahara (MINURSO); two in Asia — the United Nations Transitional Administration in East Timor (UNTAET) and the United Nations Military Observer Group in India and Pakistan (UNMOGIP); four in the Middle East — the United Nations Disengagement Observer Force (UNDOF), the United Nations Iraq-Kuwait Observation Mission (UNIKOM), the United Nations Interim Force in Lebanon (UNIFIL) and the United Nations Truce Supervision Organization (UNTSO); and four in Europe — the United Nations Mission in Bosnia and Herzegovina (UNMIBH), including the United Nations Mission of Observers in Prevlaka (UNMOP), and the United Nations Interim Administration Mission in Kosovo (UNMIK), the United Nations Peacekeeping Force in Cyprus (UNFICYP) and the United Nations Observer Mission in Georgia (UNOMIG). All but two of the missions are funded through peacekeeping assessments. The other two, UNMOGIP and UNTSO, are funded through the regular budget.

17. Peacekeeping assessments are estimated to reach $2.1 billion in 2000 and to be higher in 2001. Peacekeeping levels have fluctuated in an irregular pattern over the last nine years, with high levels of over $3 billion in 1994 and 1995 to lower levels in the range of $900 million in 1998 and 1999. Levels are currently moving upwards.

18. However, levels of assessment for peacekeeping operations are inherently hard to forecast. They are built on assumptions about a myriad of hard to predict variables and require constant reassessment. Even at this point in 2000, assessment levels may reach levels higher than currently forecast.

19. There has been an overall upswing in the level of peacekeeping assessments in 2000 as a result of the requirements of the four most recently established missions, UNAMSIL, UNTAET, UNMIK and MONUC. These four missions apart, assessment levels for 2000 are considerably smaller, barely reaching $0.4 billion. With the addition of the assessments for the four missions, which together total $1.7 billion, the aggregate level totals over $2 billion.

20. With unpaid peacekeeping assessments at the end of September having reached a high of $2.5 billion, there is real concern about the imbalance in the amount of unpaid assessments compared to current levels of assessment, and also considerable concern that a majority of the amount of unpaid assessments is owed by one Member State. The United States alone accounts for 58 per cent of the aggregate.

21. However, a number of significant contributions were made during the first half of October, including $200 million from the United States, $61 million from Italy and $17 million from France. The United States has also informed the Secretariat that an additional $100 million should be expected shortly. Each of these payments will bring down the share and percentage of the total owed by that Member State. Payments are also expected from several prompt paying Member States as a result of the issuance of a significant number of recent assessments.

The international tribunals

22. The international tribunals represent an important and growing effort by Member States. Since their creation in 1994 and 1995, assessments have increased fourfold and now stand at a level of $166 million. The starting assessment level for the International Tribunal for the Former Yugoslavia of $11 million has increased to $88 million. The assessment level for the International Criminal Tribunal for Rwanda has increased from $13 to $79 million in six years. New proposals from the tribunals for 2001 show continued rapid growth. The number of staff who have become involved in the work of the tribunals has also increased to over 1,600 in 2000, with possible further increases in 2001.

23. Assessment payments, however, have not kept pace with this increase. Unpaid assessments as at the end of September 2000 totalled $54 million, up from $20 million in 1997. One hundred twenty-two Member States had unpaid assessments as at 30 September, with three Member States, the United States, the Russian Federation and France, accounting for the largest component. Each of these three Member States owed $12 million at the end of September. France has informed the Secretariat that its payment for the tribunals would be made by year-end. Payment of over $4 million from Italy was received in October. The Russian Federation has made no payment for the current year, or in fact for any prior year. The arrears of the United States continue to grow as that Member State does not pay its full assessment.

C. Cash situation at 30 September 2000 and to the end of 2000

Regular budget — cash flow

24. The regular budget cash situation during the first nine months of the year showed the usual pattern of positive and negative balances, beginning with a positive balance of $111 million. In July, the cash position turned negative and continued so until September, when major payments were received from two Member States: $164 million from Japan and $32.6 million from the United States. At the end of September the cash situation was just above zero.

25. In October and November, the regular budget cash account is forecast to remain in a negative position. The cash position at the end of December is still not known, as it is necessary to focus on payments that could be made by the major contributor. At this point, with action not yet taken by the United States Congress, the year-end forecast becomes one of uncertainty with three possible scenarios.

26. Scenario 1 forecasts year-end regular budget cash by assuming an end-of-year payment by the United States equivalent to the remaining balance of their current year's assessment, or $263 million. This payment approach was followed in 1999 by the United States. Scenario 2 assumes that the United States will withhold up to $100 million, pending confirmation by the United States Congress that the United Nations has taken no action in 2000 to exceed its regular budget level. According to this scenario, payment of only $163 million would be made by 31 December 2000. Scenario 3 assumes that no year-end payment will be made, an unlikely alternative, but one that must be addressed.

27. Under the first scenario, the regular budget is forecast to be in a positive position of $48 million. Under the second scenario, the regular budget cash balance would be in a negative position of $52 million, forcing a return to cross-borrowing from peacekeeping cash at year-end to compensate for the regular budget cash deficit. The third scenario means a step backward to a very large negative balance. This scenario is not in any way seen as likely, but, given the present degree of uncertainty as to action by the United States Congress, scenario 3 sets the extreme of a negative cash balance regardless of how unlikely it may be.

28. The efforts of many Member States to pay their dues on time have definitely ameliorated the cash situation of the Organization. The amount of year-end cash, however, still depends on action to be taken by one Member State. Should that payment not be forthcoming, a return to cross-borrowing remains a very real possibility.

Peacekeeping — cash flow

29. The amount of cash available for peacekeeping is dependent on the timing and extent of peacekeeping assessments. Peaks in the peacekeeping cash flow occur in the spring and fall of the year, with a lag of several months or so depending on the timing of the issuance of major peacekeeping assessments. On average, the Organization has $900 million to $1 billion in peacekeeping cash throughout the year. This amount is deceptively large, however, until one considers how it is apportioned, namely cash in active mission accounts, inactive mission accounts and in the Peacekeeping Reserve Fund.

30. Cash currently available for active missions amounts to $419 million. With 12 missions to administer, this amount is very low. Based on actual experience during recent months, cash requirements are about $120 million a month and rising. Thus, the present cash balance represents only about three months of cash on hand. This is a precarious, if not potentially destabilizing position.

31. Additionally, some active missions have better cash positions than others. For instance, UNMIK and UNTAET have one third of the active mission cash on hand, while UNAMSIL has an insufficient amount to procure goods and services and provide reimbursement payments of troop and contingent-owned equipment costs as obligations arise. By the decision of the General Assembly, no cross-borrowing is permitted between active peacekeeping missions. This means that for certain missions, prospective, planned troop cost and contingent-owned equipment payments may be delayed.

32. Cash available for inactive missions amounts to $374 million. Most of this amount is earmarked for settlement of contingent-owned equipment claims from troop-contributing countries, which must be negotiated, finalized and certified before payment can be made. Only then, and subject to available cash, can payments be made.

33. Cash in the peacekeeping reserve fund amounts to $180 million. The Peacekeeping Reserve Fund is a

cash flow mechanism that allows for rapid response by the United Nations to the needs of new or expanded peacekeeping operations. It is the initial financing source for peacekeeping missions.

34. The Fund provides cash guarantees for liabilities, in particular commercial ones, entered into at the time of new mission start-up or existing mission expansion. The amounts involved are based on individual commitment authority levels granted by the Advisory Committee on Administrative and Budgetary Questions or by the General Assembly. Once initial assessments are approved and assessment collections begin, the Reserve Fund is replenished from active mission cash.

35. Follow-on financing is provided through assessed contributions and voluntary contributions. This can be illustrated drawing on the history of UNMIK. The Mission was established in 1999 to carry out the important tasks of building stability, peace and democracy in Kosovo. The General Assembly initially approved commitment authority with an assessment of $125 million. Pending receipts of significant assessed contributions, the start-up costs were advanced from the Peacekeeping Reserve Fund. Assessments as at 30 September 2000 totalled $626 million. Receipts, as of 30 September, however, totalled $419 million or just 67 per cent of the amount assessed. While low, this percentage is better than many other missions which, with the same level of assessment, have total receipts in the range of 50 per cent or less.

36. A second part of follow-on financing for UNMIK, which has been a large part of the financial requirements for its infrastructure, was received from donor grants. Out of 275 million deutsche mark (DM) pledged for both designated and undesignated assistance, DM 228 million has been received. The unpaid amount of DM 46 million will most likely be contributed by the end of 2000.

D. Debt to Member States

37. The policy of the Secretary-General of paying Member States for troop and contingent-owned equipment obligations incurred within the year has been followed over the last few years. However, in 2000 more uncertainty than usual surrounds the ability of the Secretariat to continue that policy.

38. Clearly, holding back payments has been a source of precautionary financing for peacekeeping as a whole. Now, with the level of resources required to carry out these missions increasing, the consequent level of payments for civilian support and use of troops and contingent-owned equipment will also increase. This means that, with large and increasing amounts of unpaid assessments, the surety that the Secretary-General can remain current on troop and contingent-owned equipment obligations is fading. The present policy is expected to continue, but at this time commitment cannot be assured.

39. Amounts owed to Member States for troops and contingent-owned equipment at the beginning of the year totalled $800 million. Earlier this year, payments in the amount of $91 million were completed for obligations incurred in 1999 but not paid out in that year. In addition, further payments were made from arrearage collections in 1999 from the United States and the Russian Federation, which together totalled $71 million.

40. However, obligations for 2000 incurred to date are running higher than in the past, at around $365 million. Partial troop and contingent-owned equipment payments totalling $84 million have been made during the course of the year. In addition, at the end of October a progress payment of $86 million will also be made for active missions. More payments are to be made before the end of 2000 to meet the current year's obligations.

41. The Secretary-General will make every effort to pay sufficient funds to prevent an increase in the Organization's debt to Member States for troops and contingent-owned equipment. However, the remaining anticipated payments are almost entirely dependent on the prompt collection of current year's peacekeeping assessments. To completely pay current year's obligations, another $97 million would need to be paid. If that can be accomplished, year-end debt would total $736 million.

42. In summary, debt owed for troops and contingent-owned equipment obligations remains high and resistant to reduction. Therefore the first priority of the Secretary-General is to contain the present debt level by fully paying current year's troops and contingent-owned equipment obligations. His second priority is to reduce the current debt level by so dedicating the collection of assessments long in arrears to that end. Both priorities give way to the need to retain enough

cash overall to maintain the cash liquidity of the Organization.

E. Combined cash

43. Overall cash liquidity is affected by three indicators — assessments, cash availability and debt to Member States. By putting these three indicators together, it is possible to ascertain what the final combined cash projection for the end of 2000 may be for the regular budget, peacekeeping and the international tribunals.

44. The combined cash picture at this point in the year is dependent on when and how much the United States will remit to the United Nations by the end of 2000 for the regular budget, a situation which remains uncertain pending the completion of legislative and executive processes. Under these circumstances, the combined cash forecast is based on the three scenarios of possible United States payments previously outlined above.

45. Scenario 1, which assumes full payment by the United States for its regular budget contribution, would show total cash of $1,034 million, of which $986 million would be for peacekeeping and the international tribunals and $48 million for regular budget. While the aggregate amount is below last year's level, it does mean that, for two years in succession, cross-borrowing at year-end to support the regular budget would have been successfully avoided.

46. Scenario 2 shows combined cash of $934 million, of which $986 million is for peacekeeping and the tribunals, with the regular budget in a deficit cash position of $52 million. This scenario assumes the United States will not pay $100 million of its current year's assessment within 2000. This scenario means a return to a deficient regular budget cash position and a need to cross borrow from peacekeeping accounts.

47. Scenario 3 shows combined cash of $766 million, of which $986 million is for peacekeeping and the tribunals, with the regular budget in a deficit cash position of $220 million. This scenario, while highly unlikely, since it is predicated on no substantial payment by the United States for its current year's assessment, would mean a significant deficit in the regular budget with a resultant drop in combined cash to the previous level of 1998.

III. Conclusion

48. At this point, while 2000 was initially forecast as a year that would witness the continued return to an overall more positive financial position, the key financial indicators used to judge the health of the Organization indicate that the opposite may be happening. Only the regular budget, with an increase in Member States paying in full, shows signs of continued progress, despite the fact that one Member State owed 81 per cent of the total amount due at the end of September 2000. The assessment levels for peacekeeping and the international tribunals are increasing markedly, while unpaid amounts are also reaching higher levels. Finally, uncertainty surrounds the ability of the Organization to continue the policy of the Secretary-General of remaining current with the annual troop and contingent-owned equipment obligations.